

State of Alaska FY2003 Governor's Operating Budget

Department of Community & Economic Development Qualified Trade Association Contract BRU/Component Budget Summary

BRU/Component: Qualified Trade Association Contract

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

The mission of the state tourism marketing program is to increase jobs and income to Alaska residents through the promotion of Alaska as a visitor destination and the resulting visitor expenditures.

Component Services Provided

Continue to provide funding for the state's statewide tourism marketing contract with a qualified trade association.

Component Goals and Strategies

INCREASE BENEFITS FROM VISITORS COMING TO OR TRAVELING WITHIN THE STATE

Increase interest in Alaska as a visitor destination.

- Increase employment of Alaskans in the visitor industry throughout the state.
- Increase awareness and participation of businesses in the marketing program.
- Increase private sector funding of state tourism marketing programs.
- Endeavor to position Alaska as a year-round destination.
- Increase visitation to all regions of the state including non-urban areas.
- Attract a diverse mixture of visitors who travel to and within Alaska by a variety of travel modes.
- Increase total visitor expenditures statewide; endeavor to maintain or increase per trip expenditures.
- Increase independent visitation to the state.
- Increase the rate of repeat visitation.
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Key Component Issues for FY2002 – 2003

Growth Rate of Tourism Travel to Alaska is Decreasing --- The rate of growth of tourism visitation is declining both for package travel and independent visitors. However, although the overall growth rate of package tours has declined, Alaska's share of the international cruise market has been maintained. Meanwhile the growth of independent travelers has dropped below the national average rate.

Obtain sufficient private sector funding to meet requisite match and improve program - Beginning in FY 03, state law requires the qualified trade association contractor to increase its contribution to the marketing program from 30 to 60 percent. Unless additional funds are generated from private sector companies, the state's match will be reduced.

Increased competition from other tourism destinations continues to threaten the Alaska industry - Alaska's public funding for tourism marketing has declined from over \$10 million in FY92 to \$4.6 million in FY02. While other states have increased their funding by 25 percent in the past five years, Alaska has slipped from 7th to 29th place in the total amount spent on tourism programs, and now ranks 36th in the amount of public sector funds allocated to tourism. This decline in state funding requires industry to find ways to more effectively utilize its marketing money.

Alaska's Tourism Industry Negatively Impacted by Terrorist Attack - Alaska may be more significantly impacted by September 11th than other U.S. destinations because air travel is the primary mode of travel for the majority of Alaska visitors. The Winter Season may be negatively impacted because Japanese travelers are reluctant to fly and they account for a significant portion of visitor destination travel and expenditures to Interior Alaska, specifically the Fairbanks area, during the winter months.

Major Component Accomplishments in 2001

National cable television returned to the marketing program after Alaska was “off the air” for 1 full year. Total buy in FY02: \$1.2 million.

Exceeded required industry match by 17% during the first year.

Increased business participation in the state tourism marketing program by 29% over the past 2 years.

The number of requests for Alaska trip-planning information generated in FY01 exceeded 615,000.

Increased and expanded the selection of marketing services to businesses. New programs included: advertising on specialty websites featuring adventure/ecotourism; sportfishing and cultural tourism; online travel specials on website to allow businesses to promote short-term special offers to consumers; electronic newsletter which allows follow-up marketing to consumers.

Increased traffic to Official State Travel website; average of 90,000 visitor sessions and 1.9 million hits per month.

Re-introduced Alaska representation in Australia.

Completed the Images of Alaska 2000 research study which tracks the behavior and travel attitudes of Alaska visitors and potential visitors.

Development of comprehensive Alaska Destination specialist training program in partnership with the Institute of Certified Travel Agents (ICTA). Alaska is only the 2nd state to participate in this program.

Increased interest in adventure/ecotourism and sportfishing in Alaska by creating individual websites addressing these industry segments and implementing targeted opt-in email campaigns to drive traffic to the sites.

Assisted more than 1,000 individual travel writers in developing Alaska travel stories covering all regions of the state and industry segments. Also maintained online media center, allowing continuous access for travel media to Alaska travel information, photography and support services.

Maintained participation in Tourism North program, a cooperative effort between Alaska and four Canadian jurisdictions working to increase highway/ferry travel.

Statutory and Regulatory Authority

AS 44.33.119-125

Key Performance Measures for FY2003

Measure:

Increase visitation from domestic and foreign markets.

Alaska's Target & Progress:

Target is to increase overall visitation by 3% in Summer and 3% in Fall/Winter.

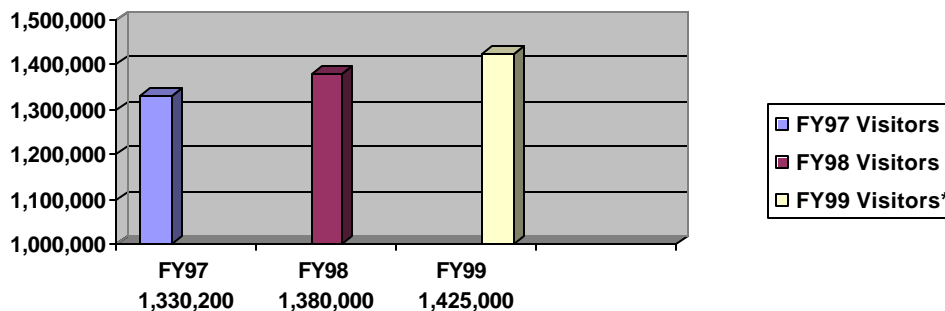
Summer 2001: Progress will not be known until the Alaska Visitor Statistics Program (AVSP) Summer 2001 report is released by the Department. However, in an informal poll of Alaska tourism businesses over 40% of respondents reported business was down for summer of 2001 compared to previous years.

Fall/Winter 2001: Early indicators show that this goal was exceeded by a significant amount. Preliminary data from the AVSP Fall/Winter 2000/01 estimates arrivals were 10-15% higher than in fall/winter 1998-99 (the last year for which information is available).

DCED is updating the Alaska Visitor Statistics Program IV (AVSP), which will provide critical data on Alaska visitors. This information will be used as a benchmark for tracking actual visitation patterns for FY03 and in future years. Once completed, this study will also provide benchmark information for the number of repeat visitors.

The AVSP 1999 Summer Arrivals study shows that visitor traffic growth has slowed over the past several years. In 1996, visitor volume grew by 10%; in 1997, by 5%; and in 1998, by 4%.

YEAR-ROUND ALASKA VISITATION



*No AVSP Fall/Winter arrivals data was collected for 1999/2000 so 1998/1999 figures were used for comparison.

Events of 9/11: The tragic events of September 2001 have altered the course of travel for the foreseeable future. Travel and tourism is one of the hardest hit sectors of the economy and one of the areas where consumer confidence will take the longest time to return. Massive layoffs and bankruptcies are erupting throughout the industry. As a result urgent short term measures have been undertaken by the federal government to generate cash flow and assist the travel industry in regaining its footing. A number of cities and states have begun emergency marketing campaigns to attract consumers who are willing to travel. In Alaska the major impact will occur in the coming months as we head into the peak booking cycle and summer season. Alaska is expected to be particularly hard hit since many consumers are now afraid to fly, and Alaska's primary mode of travel is by air.

Benchmark Comparisons:

According to the Travel Industry Association (TIA), U.S. domestic travel for 2000 grew by 1% over 1999, while the Pacific region of the U.S. saw an increase of 5% over the previous year. International travel was up 4.9% with cruise industry traffic increasing 16.8%. TIA originally forecasted a 1.8% increase in domestic/international travel for 2002, although these projections are now being re-evaluated due to the terrorist attacks.

Background and Strategies:

Alaska needs to become more competitive in the marketplace; given current funding, this is very difficult to do. In comparison to other states, Alaska ranks 36th in the amount of state funds allocated to tourism marketing. This greatly diminishes the state's ability to compete for visitors. The average state tourism marketing budget for 2001 was \$13.7 million compared to Alaska's \$7.3 million budget. Another important point of reference is that 35 of 50 state tourism marketing programs receive 100% of their funding from the public sector.

International visitors continue to come primarily from Japan, Germany, the United Kingdom and Australia. Based on reports from tour operators, cruise lines and airline sources the 2001 season brought approximately 25,000 visitors from Germany, 23,000 from Japan, 15,000 from the United Kingdom and 12,000 from Australia.

Marketing strategies being implemented to compete for visitors include:

Adding national cable television.

- Expanding and promoting Official Alaska State Travel Website (www.travelalaska.com) in order to maintain the monthly average of 90,000 visitor sessions and 23.5 million total hits to the site for the year.
- Bolstering Public Relations efforts to include aggressive outreach to travel writers, editors and producers in order to increase national media exposure for Alaska.
- Increasing the level of knowledge regarding Alaska with travel trade and tour operators.
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Measure:

Increase economic and other benefits provided by the visitor industry.

Alaska's Target & Progress:

Target is to:

Increase statewide visitor expenditures from \$949 million and overall impact of \$2.6 billion;

- Enhance the quality of life for Alaskans; and
- Increase year-round employment of Alaskans in the visitor industry above the current 30,700.
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Number of Jobs: One in eight private sector workers are now employed in the visitor industry in Alaska. Alaska's visitor industry directly and indirectly accounts for approximately 30,700 jobs (20,300 direct employment; 10,400 indirect employment).

Average Visitor Expenditure: Visitors spend an estimated \$726 per-person, per-trip while visiting Alaska. As the number of visitors to Alaska grows, the overall economic impact to the state will increase.

Total Visitor Industry-Related Economic Output (Spending) in Alaska, 1998

	Direct Spending (millions)	Output Multiplier	Indirect Output (millions)
Transportation	\$172.1	1.8973	\$326.5
Retail	191.1	1.7945	324.9
Service Sector			
Lodging	203.7	1.6589	337.9
Food/Drink	137.1	1.5499	212.5
All Other Service	244.8	1.6554	405.2
Total	\$948.9		\$1,625
Plus Direct Impacts			949
GRAND TOTAL:			\$2,574

Source: Economic Impacts of Alaska's Visitor Industry, March 1999

Benchmark Comparisons:

Length of Trip: The Travel Industry of America (TIA) reports the national average trip duration in 2000 was 4.1 nights. Alaska is out-performing the national average. The 1999 AVSP visitor arrival study reports the average trip duration at 9.8 days. More nights/days in a destination translate into more dollars spent.

Background and Strategies:

Through the statewide marketing effort, ATIA strives to increase visitor expenditures by bringing more visitors to Alaska and encouraging these visitors to stay longer and spend more. By targeting a diverse mix of visitors, we are able to expand the range of businesses that benefit, provide a quality experience and bring income to all regions of the state.

As Alaska's tourism industry grows, residents will benefit both directly and indirectly through increased employment and quality of life improvements such as jet air service, local attractions, hotels, restaurants, etc. More importantly, as other industries face decline – such as commercial fishing, mining and timber – more residents are turning to Alaska's visitor industry for employment.

Measure:

Increase participation of businesses in the tourism marketing program.

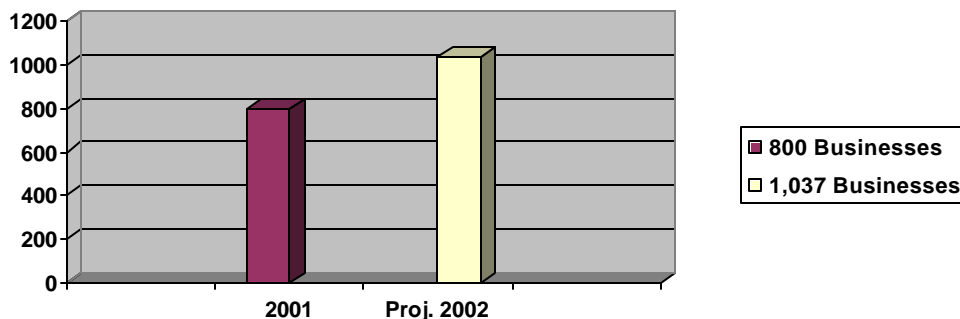
Alaska's Target & Progress:

Targets include:

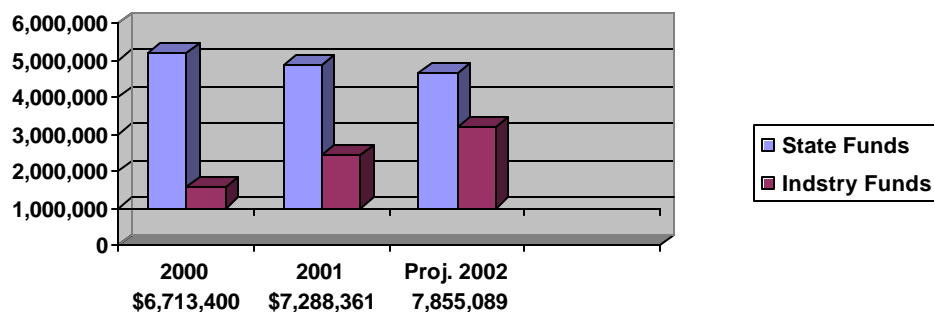
- Raise a minimum of 30% of the funding for marketing from the private sector: This target was met and exceeded by 17% for FY01 and will be exceeded by approximately 60% for FY02. In FY03, the required match requirement doubles. While the industry will continue to increase its share of funding, it will not be possible to reach \$6 million in FY03.
- Increase business participation in the state tourism marketing program: Participation has increased by 29 percent over the past two years.
- Increase the selection of marketing services to businesses: New programs include advertising on specialty websites catering to adventure/ecotourism, sportfishing and cultural travelers; online Travel Specials section on website to allow businesses to promote short-term special offers to consumers; and electronic newsletter sent directly to potential travelers.

The private sector was required to match state funds by 30% in FY01 and FY02. For both years, additional funds were raised outside of the contract and spent on marketing. In FY01 the required match was \$2,078,571 with an additional \$359,790 raised for a total of \$2,438,361; this amount increased to \$3,199,889 in FY02 with \$1,995,085 representing the required match and \$1,204,804 additional funding of marketing raised by the private sector. In 2000 the industry was restricted by program receipt authority in terms of how much could be contributed to the marketing program.

INDUSTRY PARTICIPATION IN MARKETING PROGRAM



INDUSTRY FUNDING OF TOURISM MARKETING EFFORTS



Public sector funds are the primary source (92%) of all tourism office funding and are the sole source in 35 states. Of the 15 states whose public sector funding is augmented by the private sector, including Alaska, 73% of total funds are provided by the public sector.

Forty-five states include industry advertising in the primary inquiry response brochure with some states now implementing online reservations.

Background and Strategies:

The tourism marketing program is developed by a broad-based group of more than 50 individuals representing businesses throughout the state. Specific focus is placed on year-round marketing and the needs of small businesses, which make up 92 percent of ATIA's membership. Some new programs added within the past two years include: representation in Australia, individual websites developed for adventure/ecotourism, sportfishing and cultural niches and the addition of national television advertising.

Outreach to businesses and organizations include regular delivery of an electronic newsletter sent to approximately 1,700 throughout the state. The annual meeting of industry has also seen continued growth: 571 delegates attended in 2000 and 660 attended in 2001. An industry website, www.alaskatia.org, also serves as a "clearinghouse" for important information on Alaska's visitor industry, national tourism industry and the state's marketing program.

ATIA also reaches out to civic and industry groups to increase awareness and participation in the statewide marketing program. Some of these groups include: Convention & Visitors Bureaus, Chambers of Commerce, member organizations such as the Statewide Association of Bed & Breakfasts, Museums Alaska and Community Economic Development Forums.

Measure:

Increase interest in Alaska as a visitor destination.

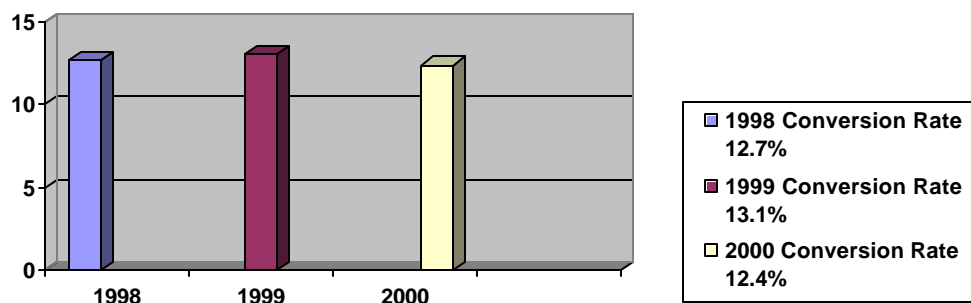
Alaska's Target & Progress:

Targets include:

- Establish a benchmark to track consumer interest in Alaska as a travel destination: The Images of Alaska 2000 research study tracks the behavior and attitudes of visitors to Alaska as well as non-visitors. This study establishes a benchmark to chart further growth and provides valuable information that can be used to refine Alaska's marketing messages and the vehicles used to deliver this message.
- Maintain the 12.4% rate at which interested parties convert to visitors: In FY02, the "visit Alaska" message was delivered to an estimated 72.8 million individuals, resulting in more than 612,000 individual consumers requesting Alaska trip-planning information. The conversion rate for the 2000 program year was 12.4%; meaning 12.4% of those requesting Alaska trip-planning information actually visited the state. Looking at the two-year conversion rate – those who indicate they will travel one year, but wait an additional year before actually traveling – the conversion rates increase to 19.4% for 1998 and 1999.

Individual media is being tracked for effectiveness. The annual Conversion Study is used to guide future marketing efforts and refine the effectiveness of the program as a whole. Comparisons may be made year-to-year, however, numbers vary based on different types of media used.

CONVERSION RATE



Benchmark Comparisons:

Not applicable.

Images 2000 study was completed and we found that the size of the potential Alaska visitor market in the U.S. has grown by 4.3 million during the last four years. 34.8 million U.S. adults meet the profile of a typical Alaska visitor.

Other highlights of the study include:

- Repeat visitors tend to return to the state an average of 3.6 times and stay longer than first time visitors.
- Use of the Internet as a trip-planning tool increased substantially, growing from 5% in 1996 to 44% in 2000.
- Alaska ranked third in terms of the next destination visitors are most likely to travel to in the next five years.
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ATIA implemented domestic marketing programs to increase interest in travel to Alaska, including magazine, direct mail, newspaper, public relations efforts and internet marketing. New in FY02 was the addition of national cable television advertising. ATIA also implemented international marketing efforts, primarily targeting Japan, German Speaking Europe, United Kingdom and Australia; secondary markets include Taiwan and Korea.

ATIA assisted more than 1,000 individual travel writers in developing and placing Alaska travel stories and maintained an online media center, allowing media to access Alaska travel information and photography continuously – anywhere and anytime around the world.

Alaska is a difficult destination to sell. Therefore, a concerted effort is being made to reach travel agents and tour operators by directly sending them Alaska trip-planning information and developing a comprehensive Alaska Destination Specialist training course in partnership with the Institute of Certified Travel Agents (ICTA).

The number of requests for trip-planning information generated in FY01 exceeded 615,000.

Measure:

Attract a diverse mix of visitors who travel to and within Alaska.

Alaska's Target & Progress:

Target is to:

- Endeavor to position Alaska as a year-round destination;
- Increase travel by all modes; and
- Increase travel to all areas of the state.
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Target is being met by implementing programs that focus on the following niche markets: winter, highway/ferry, adventure/ecotourism, sportfishing, cultural and Bed & Breakfasts.

Highway/Marine Highway: Ad featuring highway travel ran in national publications and 43,000 direct mail packages were sent to highway lists resulting in 64,000 requests for trip-planning information.

Adventure/Ecotourism: 60,000 email messages containing an adventure/ecotourism message were sent to targeted opt-in email lists, and five ads were placed in national publications, resulting in 21,000 requests for trip-planning information.

Sportfishing: targeted email messages were sent to sportfishing enthusiasts resulting in 8,000 requests for Alaska trip-planning information.

Benchmark Comparisons:

Alaska is positioned to offer many of the activities that are popular with visitors on a national basis.

TOP NATIONAL ACTIVITIES FOR U.S. TRAVELERS

Shopping	33%
Outdoor	17%
Historical/Museums	14%
Beach	10%
Cultural Events/Festivals	10%
National/State Parks	10%

Background and Strategies:

Winter: Advertising and collateral materials include both winter and summer images in order to position Alaska as a year-round destination.

A separate winter section is included in the Official State Vacation Planner and on the Official State Website.

- Travel writers were brought to Alaska and will be encouraged to write about their winter experiences.
- Winter vacations are being marketed to Japanese travelers.
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Highway/Marine Highway: A cooperative effort with Yukon, BC and Alberta focuses on highway and ferry travel. A North! to Alaska travel magazine is distributed to roughly 400,000 potential visitors interested in driving to Alaska. The state also partners with Tourism Yukon through a separate agreement in order to run joint advertisements in national magazines aimed at the rubber tire trade.

Adventure/Ecotourism: Backcountry adventures are highlighted as a separate section in the Vacation Planner. The www.adventuresalaska.com website is prominently displayed to encourage those receiving the Planner to also check out the niche website which provides additional information and access to Alaska businesses specializing in adventure or ecotourism.

Sportfishing: Partnering with producers and writers to increase the amount of national exposure generated on fishing in Alaska. Several television programs will air this year on ESPN-2 that showcase fishing in Kodiak and Southwest Alaska. The www.sportfishinginalaska.com website is also prominently displayed in the Vacation Planner and promoted.

Qualified Trade Association Contract

Component Financial Summary

All dollars in thousands

	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Contractual	4,800.0	4,655.2	4,005.1
74000 Supplies	0.0	0.0	0.0
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	4,800.0	4,655.2	4,005.1
Funding Sources:			
1004 General Fund Receipts	4,800.0	4,605.1	4,005.1
1007 Inter-Agency Receipts	0.0	50.1	0.0
Funding Totals	4,800.0	4,655.2	4,005.1

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
None.		0.0	0.0	0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0	0.0	0.0
Restricted Revenues						
Interagency Receipts	51015	0.0	50.1	0.0	0.0	0.0
Restricted Total		0.0	50.1	0.0	0.0	0.0
Total Estimated Revenues		0.0	50.1	0.0	0.0	0.0

Qualified Trade Association Contract

Proposed Changes in Levels of Service for FY2003

Reduce uncollectable I/A authorization. When the BRU for the Qualified Trade Association was established in FY 2001 from the former Division of Tourism, interagency receipts were transferred from the division. The Division of Tourism collected these receipts from the Department of Transportation for Tourism North and Scenic Byways projects. Since QTA is not a state agency, these funds cannot be collected as interagency receipts.

Reduce authorization. When tourism marketing was transferred to a qualified trade association (QTA) by statute in 1999, 30% of the marketing budget was to be raised by the QTA. By statute (AS 44.33.125(a)), this percentage increases to 60% in the FY03 contract. Assuming the tourism industry can generate the contribution assumed under the Millennium Plan, based on the Plan's projected total budget of \$10 million, the State's share of the budget will be reduced from \$4.6 million to \$4.0 million.

Summary of Component Budget Changes

From FY2002 Authorized to FY2003 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	4,605.1	0.0	50.1	4,655.2
Proposed budget decreases:				
-Reduce uncollectable I/A authorization	0.0	0.0	-50.1	-50.1
-Reduce authorization per statute (AS 44.33.125(a))	-600.0	0.0	0.0	-600.0
FY2003 Governor	4,005.1	0.0	0.0	4,005.1